



Third Positive Indigenisation List

For Prelims: Positive Indigenisation List, Defence Acquisition Procedure 2020, Initiatives in the Defence Sector.

For Mains: Significance of Indigenisation of Defence and associated challenges.

Why in News

Recently, the Ministry of Defence (MoD) has restricted the import of 351 systems and components as a part of **third Positive Indigenisation List to boost Indigenisation in Defence Manufacturing**.

- In June 2021, the MoD had notified the [second negative import list](#), renamed as the '**positive indigenisation list**' of **108 items**.
- The '[First Negative Indigenisation](#)' List comprising 101 items was notified in August 2020.

Key Points

- **Procurement:**
 - All the 351 items will now be procured from indigenous sources as per provisions given in [Defence Acquisition Procedure \(DAP\) 2020](#).
 - The DAP 2020 includes the following procurement categories: Buy (Indian - Indigenously Designed Developed and Manufactured), Buy (Indian), Buy and Make (Indian), Buy (Global - Manufacture in India) and Buy (Global).
- **Timeline:**
 - The import of 172 systems and components will be stopped from December 2022, while curbs on another batch of **89 items will come into effect from December 2023**. The import of a **further 90 items will be stopped from December 2024**.
- **Items Included:**
 - It **includes components such as** a missile approach warning sensor, shells, propellants, electrical parts, missile containers, a torpedo tube launcher and a gun fire control system.
- **Significance:**
 - This Atmanirbhar (self-reliance) initiative will save foreign exchange **approximately equivalent to Rs 3,000 cr every year**.
 - It will give a boost to indigenisation with active participation of the public and private sector for **fulfilling the twin objectives of achieving self-reliance**. ([Atmanirbhar Bharat](#)) and **promoting defence exports**.
 - Not only does the list recognise the potential of the local defence industry, it will also invigorate impetus to domestic Research & Development by attracting fresh investment into technology and manufacturing capabilities.
 - It also provides an excellent opportunity for '**start-ups**', as [Micro, Small, and Medium Enterprises \(MSMEs\)](#) will get a tremendous boost from this initiative.

Indigenisation of Defence

▪ About:

- Indigenisation is the **capability of developing and producing any defence equipment within the country** for the dual purpose of achieving self reliance and reducing the burden of imports.
- **Self-reliance in defence manufacturing is one of the key objectives** of Department of Defence Production.
 - **Defence Research Development Organisation (DRDO), Defence Public Sector Undertakings (DPSUs)** and private organisations are playing a critical role in indigenisation of defence industries.
- India is among the **world's largest arms importers, and the armed forces are expected to spend about USD 130 billion** on defence purchases over the next five years.

▪ Background:

- Overdependence on the Soviet Union brought about a change in India's approach to defence industrialisation.
- From the **mid-1980s, the government pumped resources into R&D (Research and Development)** to enable the DRDO to undertake high profile projects.
- A significant beginning in defence indigenisation was made in 1983, when the government sanctioned the **Integrated Guided Missile Development Programme (IGMDP)** to develop 5 missile systems (Prithvi, Agni, Trishul, Akash, Nag).
- The indigenous efforts were not adequate to meet the requirements of the armed forces, this resulted in the shift of focus towards co-development and co-production in partnership with foreign companies.
- A **beginning was made in 1998, when India and Russia signed** an inter-governmental agreement to jointly produce **Brahmos supersonic cruise missile.**

▪ Need:

◦ Reducing Fiscal Deficit:

- India is the **second largest arms importer** in the world (after Saudi Arabia).
- Higher import dependency leads to an increase in the fiscal deficit.
 - Despite having the fifth largest defence budget in the world, **India procures 60% of its weapon systems** from foreign markets.

◦ Security perspective:

- Indigenisation in defence is **critical to national security** also. It keeps intact the technological expertise and **encourages spin-off technologies and innovation** that often stem from it.
- Indigenisation is needed in order **to avert the threats associated with the frequent ceasefire violations** like that of the Uri, Pathankot and Pulwama attacks..

◦ Employment Generation:

- It will lead to the generation of satellite industries that in **turn will pave the way for generation of employment opportunities.**
- As per government estimates, a reduction in 20-25% in defence related imports could **directly create an additional 100,000 to 120,000 highly skilled jobs in India.**

◦ Strategic Capability:

- A self sufficient and self reliant defence industry will **place India among the top global powers.**

◦ Notion of Patriotism:

- **Nationalism and Patriotism can increase** with indigenious production of defence equipment, that in turn will not only boost the trust and confidence of the Indian forces but will **also strengthen a sense of integrity and sovereignty in them.**

▪ Challenges:

- **Lack of an institutional capacity and capability** to take different policies aimed at indigenisation of defence to its logical conclusion.
- Infrastructural deficit **increases India's logistics costs thus reducing the country's cost competitiveness** and efficiency.
- Land acquisition issues restrict entry of new players in the defence manufacturing and production.

- **Policy dilemma offset requirements under the DPP** (Defence Procurement Policy, now replaced with DAP 2020) didn't help achieve its goal. (Offsets are a portion of a contracted price with a foreign supplier that must be re-invested in the Indian defence sector, or against which the government can purchase technology).
 - Only government-to-government agreements (G2G), ab initio single vendor contracts or inter-governmental agreements (IGA) will not have offset clauses anymore.
 - According to DAP 2020, all other international deals that are competitive, and have multiple vendors vying for it, will continue to have a 30% offset clause.
- **Related Initiatives:**
 - **Increased the FDI limit:**
 - **In May 2020**, the foreign direct investment (FDI) limit under the automatic route in the defence sector was hiked **from 49% to 74%**.
 - **Corporatization of the Ordnance Factory Boards:**
 - In October 2021, the government dissolved the **four-decade-old Ordnance Factory Board (OFB) and amalgamated 41 factories** under seven new state-owned companies to **manufacture defence hardware** ranging from munitions to heavy weapons and vehicles.
 - **Defence India Startup Challenge**
 - DISC aims at **supporting Startups/MSMEs/Innovators to create prototypes and/or commercialize products/solutions** in the area of National Defence and Security.
 - It has been launched by the Ministry of Defence in partnership with **Atal Innovation Mission**.
 - **SRIJAN Portal:**
 - It is a one stop shop online portal that provides access to the vendors to take up items for indigenization.
 - **E-Biz Portal:**
 - Process of applying for Industrial License (IL) and Industrial Entrepreneur Memorandum (IEM) has been made completely online on ebiz portal.

Way Forward

- **A Permanent Arbitration Cell can be set up** to deal with all objections and disputes.
- **Private Sector boost is necessary** as it can infuse efficient and effective technology and human capital required for modernisation of indigenous defence industry.
- Software Industry and technologies like **Artificial intelligence and cyber security should be used** to develop and manufacture the “chip” indigenously.
- **Providing Financial and Administrative autonomy** to DRDO in order to enhance its confidence and authority.
- The staff at the Department of Defence Production **need to be trained and given longer tenures** to ensure continuity.
- In-house design capability **should be improved amongst the three services**, the Navy has progressed well on the path of indigenisation primarily because of the in-house design capability, the Naval Design Bureau.
- **Robust supply chain is critical for a defence manufacturer** looking to optimize costs.

Source: HT